

CARD SHARPS

Name: Class/Block: Date:

CREDIT CARDS

Rachel opened the mail eagerly. Her first credit card! And at a special low introductory interest rate, not that that mattered, because she was going to pay off the balance every month.

At first, she was very careful. But when she got busy, she was sometimes a little late with her payment. It wasn't too bad, though – although it did add a surprising amount to the cost. So whenever she had to pay the added interest, she said to herself, "I'll have to make sure I don't do that again."

Occasionally, when she was short of cash, she took a little cash advance. "I'll pay it back from my next paycheque," she thought. When her monthly bill arrived, she said, "I have to remember to pay that right away," although sometimes she didn't. Then when the bill arrived, the interest charges were a shocker – "How could it be that much?" she thought.

She decided to call the card company to ask. The agent on the phone explained that, first, the low introductory rate was just for the first three months, and it only applied to balance transfers. But since there was an unpaid balance from the previous month, the low rate did not apply anyway. And the interest-free grace period did not apply when there was a cash advance outstanding, so Rachel had to pay the full interest rate on the entire balance from the date of the charge. And the cash advance fee, too.

Oops. Rachel had to admit that it was all in the agreement she signed, although she had not really read the four pages of tiny type. And it might not have made much difference if she had, because she intended to pay the balance before the interest came due. And even when the agent on the phone explained it, it was hard to understand what charges applied, and when they were due.

Credit cards are complicated tools, with complex rules. They can be helpful but they can also be costly. The tips at the end of this sheet can help you use credit cards carefully.

PREPAID CARDS

David's mom wanted to be sure he'd be okay when he left home, so she got him a pre-paid charge card with \$250 on it – "For emergencies," she said. "It's very secure. You have to type a PIN to use it, like a debit card. And if it gets lost, you just call the number on the back, and you're not responsible for it."

David had a few "emergencies" when he was out with friends, and soon found that the card was refused when he went to use it. He was a little surprised because he thought there was more money on it. But since it was convenient, he thought he'd top it up himself. Then he was more surprised when he saw the charges on the card account.

A loading fee to add more money to the card: \$3.95. Ten purchases at 50 cents each. Two ATM withdrawals at \$2.95 each. Monthly maintenance fee, \$5.95. Total cost, \$24.75. And that didn't count the \$24.95 sign-up fee his mother had paid. "Almost \$50 in fees," he said. "Forget it. Just give me the rest of the cash on the card."

CARD SHARPS (cont'd)

"If that's what you want," said the clerk. "There's a \$4.95 fee for cashing out the card."

Prepaid cards are the opposite of credit cards – instead of buying and paying later, with a prepaid card, you pay in advance and buy later. You don't pay interest, but you will pay fees, and the fees can be just as costly as interest. Many retailers and financial institutions offer prepaid cards. Some employers even pay employees with pre-paid cards. They are useful in some circumstances, but some are not good value. You have to know which is which.

Always be aware of what you are signing. In certain cases, minors can sign contracts (e.g., contracts to buy consumer electronics and other retail products, contracts to rent an apartment, etc.). So you could be responsible for any agreements or contracts you sign. Have students review the contract tip sheet on the FCAC website (go to www.fcac.gc.ca, Resources > Publications > Your Rights and Responsibilities).

WHAT CAN YOU DO TO CONTROL YOUR CARDS?

- Ask questions.
 - + Find out how and when your card company charges interest.
 - + Find out what fees apply on the cards you use.
 - + Read your monthly statement. Question any charges you don't understand.
- Choose passwords that are hard to guess and don't let others find out what they are.
- Don't share passwords or PINs. People sometimes pretend to be a friend just to rip you off.
- Pay the charges due each month. If you have to keep an unpaid balance, pay it early to reduce interest charges.
- If you can't pay the balance, use a lower-interest type of credit, such as a line of credit, to pay the higher interest cards.
- Use cash advances only when absolutely necessary.
- Keep your credit record positive.
- Check your credit rating annually to ensure it is accurate and up-to-date. (You can request a free copy by mail. Agencies may charge a fee for requests by internet.)
- Go to reputable agencies like banks and credit unions for loans.
- Keep some savings ready for emergencies.
- If you run into credit problems, get free or low-cost advice from community and government organizations.
- Be on the watch for scams and rip-offs. You can get information about scams in your area from the Better Business Bureau (www.ccbbb.ca).

For tips and tools about credit and cards, including charts comparing the interest rates and fees on all the cards available in Canada, go to the FCAC website (www.fcac.gc.ca).

For more information about frauds and scams, visit the Canadian Anti-Fraud Centre website (www.antifraudcentre.ca).

FRAUD SQUAD INCIDENT REPORT

Name: Class/Block: Date:

Case Name: _____

Who blew it in this case: _____

What did they do wrong? _____

Smarten Up! To avoid future incidents, this person should: _____

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QUICK QUIZ – CREDIT AND DEBT

Name: Class/Block: Date:

1. Define the words:

a. credit card _____

b. debt _____

2. Name three advantages of using credit cards.

a. _____

b. _____

c. _____

3. Name one disadvantage of credit cards resulting from irresponsible use.

4. Which of the following is not an example of a responsible use of credit?

- a. borrow only what you can repay
- b. understand your contract before signing
- c. pay amounts as agreed
- d. keep cards, PINs and passwords secure
- e. check your credit slips and statement
- f. pay the minimum amount owing on every monthly balance

5. Interest on credit card cash advances is usually charged daily from the date of the advance. (Circle the correct answer)

True False

6. List two positive and three negative implications of using debt

Positive implications

a. _____

b. _____

Negative implications

c. _____

d. _____

e. _____

7. Prepaid cards don't charge interest but may charge _____.